

EXTERNAL AUDIT CIRCULAR No. 7



CONNECTICUT DEPARTMENT OF TRANSPORTATION

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SUBJECT: Overtime Premium Costs

Release Date: January 1, 2012

I. DEFINITIONS

As used in this Circular "Overtime Premium" is the difference between an employee's standard hourly wage rate and the special hourly wage rate paid for hours worked in excess of 40 per week. For example, an employee whose standard hourly rate is \$10 for the first 40 hours worked per week and \$15 per hour for hours worked in excess of 40 has overtime premium of \$5 for each hour worked in excess of 40.

II. ISSUE

During an incurred-cost/indirect cost rate audit of a consultant, the auditor may encounter overtime premium costs that are paid to employees and either charged directly to projects or included in the consultant's indirect costs.

III. ALLOWABILITY

CTDOT allows overtime premium to be charged in accordance with Section 5.4.F.3 of the *AASHTO Uniform Audit and Accounting Guide* (2010 Edition), which provides that—

Engineering consultants should have the capability of maintaining records that segregate overtime premium amounts as direct or indirect costs. An acceptable method is to charge the premium portion of overtime as a direct charge when it is the engineering consultant's regularly established policy and when appropriate tests demonstrate that this policy results in equitable cost allocations.

When employees normally work on multiple contracts it is often difficult to determine which contract "caused" the overtime. Therefore, many companies have a policy that the overtime premium portion is allocated to the overhead pool.

Note: Engineering consultants may treat overtime premium as either a direct or indirect cost, depending on the specific circumstances; however, consultants must treat overtime premium costs **consistently** [emphasis added] for all contracts, regardless of the customer (Government versus commercial) or type of contract involved.

V. REFERENCES

- DCAA Contract Audit Manual § 6-409 (Overtime, Extra-Pay Shifts, and Multi-Shift Work).
- CTDOT External Audit Circular No. 1 (definitions, audit authority, and general guidance regarding the computation of indirect cost rates).
- AASHTO Uniform Audit & Accounting Guide [2010 Edition]